

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LEWIS SANITATION )  
COMPANY, INC. D/B/A GARDENSIDE )  
SUBDIVISION, FOR AN ADJUSTMENT OF RATES ) CASE NO. 94-151  
PURSUANT TO THE ALTERNATIVE RATE )  
FILING PROCEDURE FOR SMALL UTILITIES )

O R D E R

On April 28, 1994, Lewis Sanitation Company, Inc., d/b/a Gardenside Subdivision ("Gardenside") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Gardenside's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 9th day of August, 1994.

ATTEST:

  
Executive Director

PUBLIC SERVICE COMMISSION

  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LEWIS SANITATION	)	
COMPANY, INC. d/b/a GARDENSIDE	)	
SUBDIVISION, FOR A RATE ADJUSTMENT	)	CASE NO. 94-151
PURSUANT TO THE ALTERNATIVE RATE FILING	)	
PROCEDURE FOR SMALL UTILITIES	)	

STAFF REPORT

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Division of Financial Analysis

Prepared By: George Steinmetz  
Public Utility Rate Analyst,  
Senior  
Communications, Water and  
Sewer Rate Design Branch  
Research Division

STAFF REPORT

ON

LEWIS SANITATION COMPANY, INC. d/b/a

GARDENSIDE SUBDIVISION

CASE NO. 94-151

A. Preface

On April 13, 1994, Lewis Sanitation Company, Inc. d/b/a Gardenside Subdivision ("Gardenside") submitted its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tarified sewer rates by 46 percent, an increase in annual operating revenues of \$13,920. The application was considered filed on April 28, 1994, when all deficiencies were cured.

In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of Gardenside's operations for the test period, the twelve month period ending December 31, 1993. Karen Harrod, of the Commission's Division of Financial Analysis, conducted the review on May 6, 1994 at the home of Gardenside's owner, Mr. John Lewis, in Owensboro, Kentucky. George Steinmetz of the Commission's Division of Rates and Research conducted a review of Gardenside's reported revenues on June 3, 1994, at the Lewis' home and at the West Daviess County Water District where the utility's billing and collection is done.

The findings of Staff's review are contained in this report. Mr. Steinmetz is responsible for the sections related to operating revenues. The remaining sections of the report were prepared by Ms. Harrod. Based upon the findings, Staff recommends that

Gardenside be allowed to increase its annual operating revenues by \$6,409.

Scope

The scope of the review was limited to obtaining information to determine whether test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed in this report.

During the course of the review, Gardenside was advised that all proposed adjustments to test year expenses must be supported by some form of documentation and that all such adjustments must be known and measurable.

B. Analysis of Operating Revenues and Expenses

Operating Revenue

In its 1993 Annual Report, the utility stated that it had a total of 227 residential customers resulting in the collection of \$28,512 for sewage service.

Staff performed a field review in this case and the analysis of the information obtained therefrom has produced the amount of operating revenues received by the utility for services performed in the test year. The result of Staff's analysis is that the utility derived \$29,713 from services rendered during the test year.

In its application Gardenside stated that the total number of customers as of the date of the filing was 232. In past rate

reviews involving Gardenside, it has been determined that there are 231 lots in this area. To arrive at the proper number of customers to be used in determining the normalized revenue for the test year, staff used a 13-month average beginning with customers who were served in December 1992.<sup>1</sup> This calculated average is the same as the number of customers as of April 6, 1994 as determined by staff's review of Gardenside's records. The normalized revenues for the 1993 test period are \$29,974.<sup>2</sup>

#### Operating Expenses

For the test year Gardenside reported operating expenses of \$29,776. No adjustments to test period expenses were proposed in the application. Staff's recommended adjustments are discussed in the following sections of this report.

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<sup>1</sup>	<u>CUSTOMERS</u>	<u>MONTH</u>
	231	December 1992
	231	January 1993
	229	February 1993
	226	March 1993
	228	April 1993
	229	May 1993
	231	June 1993
	229	July 1993
	229	August 1993
	231	September 1993
	230	October 1993
	230	November 1993
	230	December 1993

2,984/13 months = 229.54 or 230 customers

<sup>2</sup> 230 Customers \* \$10.86 x 12 months=\$29,974.

It should be noted that Lewis Sanitation Company, Inc. also owns and operates the sewer system for Garden Heights Subdivision ("Garden Heights"). Shared expenses are allocated between the two systems based on the number of customers which results in 1/3 of the expenses being charged to Garden Heights and the remaining 2/3 of the expenses to Gardenside.

#### Salaries and Wages

Gardenside reported test year salaries and wages expense of \$15,917. Based on Staff's review it was determined that Lewis Sanitation currently has one employee who is paid a salary of \$1,800 per month, or \$21,600 annually. Total salary expense is allocated between Lewis Sanitation's two divisions resulting in total expense for Gardenside of \$14,400. Accordingly, an adjustment has been made to decrease test year salaries and wages expense by \$1,517.

#### Treatment System - Materials and Other Expenses

In its test year operations Gardenside reported treatment system expenses of \$1,754. Included in this amount was \$692 for monthly testing/analysis. Based on Staff's review Gardenside is currently paying monthly analysis expense of \$62.70. This results in an annual expense of \$752, an increase of \$60 over the test year level. Accordingly, Staff has included an adjustment to increase test year expense by \$60.

Collection Expense

Gardenside incurs a monthly billing and collection expense of \$.50 per bill. For the test year this expense was reflected in the net revenues reported rather than being itemized as an operating expense. It is Staff's opinion that this should be included as an expense of Gardenside. Therefore, an adjustment has been made to include billing and collection expense of \$1,380.<sup>3</sup>

Depreciation Expense

There was no depreciation expense reported in Gardenside's test year operations. However, in its application Gardenside indicated that the utility was in need of some repairs, improvements and two new pumps. Staff was provided with an estimate for purchasing and installing the two pumps and a control panel at a cost of \$7,370. After consulting with the Commission's Division of Engineering it was determined that an expenditure of this nature should be capitalized and depreciated over a period of 5 years. Accordingly, Staff has included depreciation expense of \$1,474<sup>4</sup> in the calculation of Gardenside's adjusted operations.

Operations Summary

Based on the recommendations of Staff, Gardenside's operating statement would appear as set forth in Appendix B to this report.

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<sup>3</sup>      $\$.50 \times 230 \text{ customers} \times 12 \text{ months} = \$1,380$

<sup>4</sup>      $\$7,370 \div 5 \text{ years} = \$1,474$

C. Revenue Requirements Determination

The approach frequently used by this Commission to determine revenue requirements for small, privately-owned utilities is an 88 percent operating ratio. Staff recommends the use of this approach in determining Gardenside's revenue requirement. Therefore, Staff recommends that Gardenside be allowed to increase its annual revenues by \$6,409, calculated as follows:

Adjusted Operating Expenses	\$ 31,173
Operating Ratio	<u>+ .88</u>
Required Operating Revenue before Income Taxes	\$ 35,424
Less: Adjusted Operating Expenses	<u>31,173</u>
Revenue Subject to Income Taxes	\$ 4,251
Gross-up Factor	<u>1.2255</u>
Net Operating Income Inclusive of Provision for Income Taxes	\$ 5,210
Add: Adjusted Operating Expenses	<u>31,173</u>
Revenue Requirement	\$ 36,383
Less: Normalized Test-Year Revenue	<u>29,974</u>
Required Revenue Increase	<u>\$ 6,409</u>

D. Rate Design

The current rate schedule for this package treatment plant is a flat rate of \$10.86 for each single family residential user. The company has proposed in its application to increase rates by \$5 a month or \$60 annually. It incorrectly states in its application that this would be a 48 percent increase. The proposed actual increase is 46 percent across the board to all the ratepayers.

Staff concludes that the current flat monthly rate design is appropriate for Gardenside. Therefore, the increase in revenue requirement will be added to Gardenside's existing rate structure.



Staff Report  
PSC Case No. 94-151  
Page 7 of 8

Appendix A indicates the recommended rate based on the revenue increase determined herein.

Staff Report  
PSC Case No. 94-151  
Page 8 of 8

E.    Signatures

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APPENDIX A  
TO STAFF REPORT CASE NO. 94-151

The Staff recommends the following rate schedule be prescribed for customers of Lewis Sanitation Company, Inc. d/b/a Gardenside Subdivision.

	<u>Monthly Rate</u>
Single Family Residential	\$ 13.19

APPENDIX B  
TO STAFF REPORT CASE NO. 94-151

Lewis Sanitation Company, Inc. d/b/a Gardenside Subdivision  
Statement of Adjusted Operations  
Test Year Ended 12/31/93

Operating Revenues	\$ 28,512	\$ 1,462	\$ 29,974
Operating Expenses:			
Salaries & Wages	\$ 15,917	\$ ( 1,517)	\$ 14,400
Sludge Hauling	205		205
Purchased Water	116		116
Treatment Sys.-Materials & Other	1,754	60	1,814
Purchased Power	6,461		6,461
Maintenance	3,193		3,193
Office Supplies	622		622
Outside Services	600		600
Miscellaneous	7		7
Taxes other than Income Taxes	901		901
Billing and Collection	-0-	1,380	1,380
Depreciation	<u>-0-</u>	<u>1,474</u>	<u>1,474</u>
Total Operating Expenses	<u>\$ 29,776</u>	<u>\$ 1,327</u>	<u>\$ 31,173</u>
NET INCOME/(LOSS)	<u>\$ ( 1,264)</u>	<u>\$ 65</u>	<u>\$ ( 1,199)</u>